# Examiners' Report
# Principal Examiner Feedback

## January 2024

Pearson Edexcel International Advanced Level
In Accounting (WAC12) Paper 01
Unit 2: Corporate and Management Accounting

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## Introduction

As usual, there was a very wide range of marks attained by students sitting this paper. Overall, the level of responses was slightly below normal, with a mean of around 45%.

## Specific Comments

### Question 1

This was the highest scoring question in Section A, but only by three marks.

It was pleasing to see some strong answers for part (a), as there are a good number of candidates who have learnt the formulas for investment ratios. The own figure rule often helped candidates if calculations were not totally correct. Sections (a)(i) and (ii), dividend per share and dividend yield were found the most straightforward, with many answers correct. Part (iii) earnings per ordinary share proved a little trickier, as the irredeemable preference dividend needed to be deducted from net profit after tax. The price/earnings ratio in (iv) was found easier, although a number of answers were upside down! Dividend cover in part (v) appeared to be unfamiliar to some candidates who left this section blank. The gearing ratio in section (vi) involved the substitution of many figures into the formula. This was often found quite difficult, with too few or too many figures being substituted. Part (vii), the return on capital employed, was attempted quite well, although many omitted the interest on the redeemable preference shares. Answers to (b) were often failing to reach level 3, unfortunately. Too many were merely repeating in words what they had calculated in figures in part (a). Candidates need to be able to explain the movements in the ratios and understand if this is an improvement or a worsening.

<u>Helpful hints for common problems</u>

- A common and recurring fault is a failure to give the answer units e.g. pence per share, or times, or percentage. The final mark for each answer will not be awarded if units are not given.
- Candidates need to be careful when they are substituting into formulas. Sometimes, the figures were pounds (£s) and on other occasions they were pence, this, within the same question. This often led to confusion and a wrong answer.
- To ensure a strong answer, formulas need to be rote learnt, off by heart. Incorrect formulas will disadvantage candidates and scores for the section will be low or zero.

- Candidates should carefully read the question to see exactly what is being asked. Part (b) did not just ask for a description of the ratios calculated for 2023. It asked for a comparison with 2022 and reasons for the changes.

**Question 2**

This was the lowest scoring question in Section A by three marks.

Responses for the calculation of the net present value in (a) were generally good, with most candidates able to score a high proportion of the marks available, or all of them. The average rate of return in (b) was found to be more difficult, with many candidates using cash flow figures from (a), instead of profit. The payback period in (c) was completed reasonably well, often taking advantage of the own figure rule. The evaluation in (d), saw many candidates relying on merely repeating in words, the figures they had calculated before. The question did ask for "other relevant factors" to be considered. Candidates should have referred to the paragraph that explained the government would take over the land in five years time.

<u>Helpful hints for common problems</u>

- Candidates need to read the question carefully. This question clearly stated, several times, that there were five warehouses, not one. A number of candidates based their calculations on just one warehouse to be built.
- When calculating the net present value, do not forget to include year 0, the capital cost of the project, and ensure that this figure is shown as a negative.
- The average rate of return (accounting rate of return) uses a figure for profit for the calculation, not cash flow. The Depreciation figure must be included in the calculation for annual profit.
- When discussing the possibility of an investment, candidates must always consider both sides of the argument. There is always some relevant points that could be made on the other side of the argument.

**Question 3**

This was the most popular of the section B questions and the third highest scoring.

The PPE provision for Depreciation account in (a)(i) only scored reasonably well, with too many candidates omitting the dates. This despite dates such as "January 5" being clearly stated in the question. Candidates also had problems referencing the account that was to be used for the other entry. The Operating Activities section of the Statement of Cash Flows in (a)(ii) saw a pleasing number of good attempts. Most candidates were able to recall the basic format of this section. Almost all candidates were able to include correctly the "increase" or

"decrease" of the individual working capital items. Answers to (b), the evaluation, were reasonably well done. Stronger answers would have included calculations for the current ratio and the liquidity ratio.

Helpful hints for common problems

- Where several calculations are required to obtain one final figure (in this question they were needed to arrive at a figure for Interest Paid which carried three marks) candidates should not just state one final figure. Workings need to be shown if just one final figure for "Interest Paid" was to be included. Alternatively, it may be possible to show each figure separately on the face of the statement. If just one of the three figures was wrong, and only a Total figure is shown, three marks are lost.
- The accurate use of brackets is crucial for a cash flow statement, as brackets indicate an outflow or negative amount.
- Candidates need to think carefully about the wording at the end of the Operating activities section (or other sections) of the Cash flow statement. An inflow will require "From" and an outflow, as in this question, will require "Used in". The mark for this line item will not be awarded if the wrong term is applied.

**Question 4**

This was the second most popular question in section B and was the highest scoring question in the section (although there was a spread of only three marks between the means of the four Section B questions).

Candidates usually had no trouble reaching a correct answer for (a). It was good to see that many candidates had learnt the formulas well and could state these accurately for (b) and (d). Calculating the actual price and the standard price for (c) proved a little trickier as it required substituting into the formulas and manipulating the figures. A similar response was given for (e) with those who knew the formulas and how to handle the figures inserted, scoring the best. Part (f) was found difficult for most candidates, as they usually struggled to produce reasons why material price and material usage variances may or may not be linked. In the evaluation for (g), all candidates were able to write about the use of ICT. However, only the better candidates were able to direct their answer specifically to the question. Those who applied their answer to ICT and standard costing and variance analysis attained higher marks than those who wrote about ICT in general.

Helpful hints for common problems

- Candidates need to learn variance formulas and be able to repeat them under exam conditions in their answers. They also need to be able to apply the figures in the question to the formulas and manipulate them.
- When evaluating, candidates need to arrive at a conclusion or recommendation that relates to the topic being questioned. Failure to arrive at a conclusion or recommendation will exclude the candidate from the top level of the mark scheme

**Question 5**

This was the third most popular question in Section B and the second highest scoring.

Answers to (a) were usually correct, with most candidates able to calculate the total value of the cash offer. Responses to (b) were also pleasing, with accurate calculations for the offer for Tania's shares. Most candidates in (c) were able to calculate the original book value of Streetsmart and apply the value of the cash offer by WhereHaus plc. However, the revaluations proved tricky as many tried to calculate a completely new figure for each asset, instead of making adjustments to the original total asset value.

Calculations for the value of goodwill in (c) often benefitted from the own figure rule. The Journal entries in (d) were varied in quality, with quite a few scoring zero but some achieving a full eight marks. Evaluations in (e) were reasonably good, with most covering the argument for and against the offer and arriving at a conclusion.

Helpful hints for common problems

- Candidates still need to be familiar with the format for The Journal at A2 level. All entries need a date and debits must equal credits.
- When calculating the value of goodwill, candidates need to be careful of the method they use. Very often, as in this question, it is not possible to make a list of all individual assets and liabilities. Candidates need to use original values for total assets and total liabilities and then make adjustments to these figures.
- Candidates need to be aware of the need for application to the scenario in order to achieve a level 2 or 3 score. Too often, evaluations are generic with no or very little application to the scenario. Perhaps candidates should ensure they use the names of the companies in the question in their evaluation and this may help steer candidates towards application.

**Question 6**

This was the least popular question in Section B and the lowest scoring question in the section.

Candidates either scored a full ten marks for part (a), calculating the value of closing inventory, or struggled and scored very poorly. In (b), it was quite disappointing to see that many candidates were not aware of the method that should be used in the external accounts (absorption costing). Many candidates played safe and showed both marginal and absorption costing methods. Calculating the value of inventory proved challenging to most candidates. Responses to (c), disadvantages of absorption costing were varied. Some included standard disadvantages and scored quite well, whereas other answers were very weak and scored zero. Part (d) saw mixed responses with strong answers stating that marginal costing should not be used for external accounts, but that it was a useful tool for decision-making.

<u>Helpful hints for common problems</u>

- Candidates need to be aware that in a question concerning marginal and absorption costing, the value of inventory is a key component. Answering part (b) to calculate the profit in external accounts should have included a figure for opening and closing inventory. Many candidates omitted these items, which denied them the opportunity of earning six out of ten marks.
- A useful relationship is the fact that the higher the value of closing inventory in Year 1, then the higher the profit in Year 1, as the cost of goods sold is smaller. Too many candidates made comments such as “the higher the closing inventory, the lower the profit”.

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